

Current Support Brief

YUGOSLAV ECONOMIC RELATIONS WITH THE SOVIET BLOC: A PROGRESS REPORT



CIA/RR CB 63-93

18 November 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

CONFIDENTIAL

GROUP 1
Excluded from automatic
downgrading and
declassification

W A R N I N G

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

C-O N-F-I D-E-N-T-I-A-L

YUGOSLAV ECONOMIC RELATIONS WITH THE SOVIET BLOC:
A PROGRESS REPORT

Yugoslav economic relations with the Soviet Bloc continue to grow in scope and cordiality. Trade with the USSR has recovered sharply from the decline of early 1962, almost doubling in the first 8 months of 1963 compared with the same period of last year. Trade with the European Satellites, on the other hand, does not yet reflect new agreements, which call for substantial increases in trade. At the same time, Yugoslav trade with the Free World has grown almost as rapidly as trade with the Soviet Bloc, and the Bloc has accounted for only 21 percent of total Yugoslav trade so far in 1963. This compares with a share of 28 percent in 1960 -- the highest figure since the Yugoslav-Soviet break in 1948.

Other developments this year suggest closer Yugoslav relations with Bloc countries and an eventual shift in trade toward the Bloc. Visits of high officials have been exchanged, and several new agreements on economic cooperation have been announced, including a protocol on Yugoslav-Rumanian cooperation on the Iron Gates project on the Danube. Most of the Bloc countries responded to Yugoslavia's appeal for aid in rebuilding earthquake-stricken Skopje. Yugoslav officials claim that the country finally has been granted observer status in the Bloc's Council for Mutual Economic Assistance (CEMA), but they admit that "technical details" have not been worked out as yet.

1. Economic Agreements and Meetings

Signs of the gradual rapprochement between Yugoslavia and the Soviet Bloc have continued to appear in 1963. The exchange of visits by Soviet President Brezhnev and Yugoslav President Tito in 1962 was followed this year by Khrushchev's and Kadar's trips to Yugoslavia and by the visits of several high Yugoslav officials to countries of the Bloc. Yugoslav and Bloc officials discussed economic relations at various conferences, and Yugoslavia has signed a number of new economic agreements with Bloc countries.

Yugoslav trade negotiations with Bloc countries for 1963 were completed early in the year with the signing of agreements with Hungary and Czechoslovakia. Scheduled increases in trade with several countries are

C-O-N-F-I-D-E-N-T-I-A-L

C-O-N-F-I-D-E-N-T-I-A-L

fairly large, ranging from 30 to 76 percent above the level of 1962. The goal for Yugoslav trade with East Germany was boosted in July 1963 in spite of its sluggish development during the first part of the year, and plans for substantially increased trade with the USSR and East Germany in 1964 already have been announced.

The trade agreements have been supplemented during 1963 by various other economic agreements. Belgrade signed a protocol on industrial co-operation with the USSR in April and a protocol on economic and technical cooperation with East Germany in September. These protocols call for special efforts to expand cooperation and specialization in the production, among other things, of electrical and electronic equipment, machinery, and ships. Agreements on expanding economic cooperation also were signed with Hungary in January and March, with Poland in April, and with Czechoslovakia in June. Technical experts are now studying possibilities for further industrial cooperation between Czechoslovakia and Yugoslavia.

Economic cooperation between Yugoslavia and Rumania took a large step forward in June when the two countries reached agreement on the joint development of a large hydroelectric power project and navigation facilities at the Iron Gates of the Danube -- a project that has been discussed, off and on, for at least three decades. Other countries on the Danube also may participate in the navigation project. The Iron Gates project, which is scheduled to start in 1964 and to be completed in 1971, will cost about \$400 million.

Yugoslavia has expressed interest for several years in some form of participation in CEMA. A report from Belgrade in September indicated that Bloc countries have decided finally to allow Yugoslavia to participate in CEMA as an observer -- a status that it also enjoys in the Western-oriented Organization for Economic Cooperation and Development (OECD). Announcement of Yugoslav admission into CEMA occurred at the end of Khrushchev's visit, but the decision reportedly was made in Moscow in July at the eighteenth session of CEMA. Bloc officials have not yet confirmed that Yugoslavia will be an observer in CEMA, and Yugoslav spokesmen admit that "technical details" have not been settled as yet.

2. Economic Aid from the Bloc

Although there have been rumors that Bloc countries would reinstate some or all of the credits of about \$340 million that were "suspended"

C-O-N-F-I-D-E-N-T-I-A-L

in 1958 -- ostensibly for a period of 5 years -- there is no firm evidence to date that this has been done. Bloc countries have, however, demonstrated their new friendliness toward Yugoslavia through credits or grants for the reconstruction of Skopje, the city of about 200,000 that was so badly damaged in an earthquake last July. The USSR and all of the Satellites except Albania and Bulgaria have given or promised assistance for Skopje, mainly for the provision of desperately needed housing. Total economic assistance provided to Yugoslavia by the Bloc remains very small, however, compared with assistance from the US and Western Europe.

Behind the bland announcement in May that "some outstanding questions in their relations" had been settled, it appears that East Germany signed an agreement settling certain Yugoslav claims arising from World War II. Reports state that, under Soviet pressure, the Ulbricht regime agreed to contribute about \$18 million as social security funds for Yugoslavs forced to work for Germany during the war. West Germany settled a similar Yugoslav claim in 1956, but East Germany generally has denied liability for Nazi actions and has rejected claims for reparations of any kind.

3. Trade with the Bloc in 1963

Yugoslav trade with the Soviet Bloc was substantially higher during the first 8 months of 1963 than during the same period in 1962, but the rate of growth for trade with the Free World was almost as high. As a result, the Bloc accounted for only 21 percent of total Yugoslav trade. This compares with 28 percent in 1960 -- the highest share since the Yugoslav-Soviet break in 1948.

The increase of 22 percent in trade with the Bloc was almost entirely the result of a resurgence of Yugoslav-Soviet trade, which was depressed in early 1962. This trade during the first 8 months of 1963 was 90 percent higher than in the first 8 months of 1962. Comparable gains probably cannot be made above the last 4 months of 1962, when trade had already picked up, but trade for the whole of 1963 may well reach the planned level of \$180 million compared with \$102 million in 1962. Yugoslav trade with the European Satellites is scheduled to rise about one-fourth in 1963, but thus far it has increased very little. As shown in the accompanying table, only trade with Czechoslovakia has grown at a rate approaching that scheduled in the trade agreements for 1963. Trade

C-O-N-F-I-D-E-N-T-I-A-L

with neighboring Rumania, Bulgaria, and Hungary remains particularly small.

In contrast to the deficit of \$209 million incurred in trade with the Free World during the first 8 months of 1963, Yugoslavia had a small surplus in trade with the USSR and a deficit of only \$9 million with the Satellites. Earlier Yugoslav irritation over the Soviet deficit in their bilateral payments account was largely removed in 1962, when Yugoslavia was allowed to run up a sizable import surplus and the Soviet deficit in their payments account was reduced from \$32 million to \$6 million.

Although the growing warmth and scope of Yugoslav economic relations with the Bloc suggest an eventual shift of trade toward the Bloc, the countries need time to carry out their new agreements. The pace and extent of the shift depend on the problems and opportunities that Yugoslavia encounters in its various foreign markets and, most of all, on the stability of and Western reaction to the Yugoslav rapprochement with the Bloc.

C-O-N-F-I-D-E-N-T-I-A-L

C-O-N-F-I-D-E-N-T-I-A-L

Yugoslavia: Foreign Trade Turnover with the Soviet Bloc
1961-63 and 1963-64 Plans

	Value (Million US \$)			Percentage Increase Above Previous Corresponding Period		
	1961	1962	1963 Plan ^{a/}	1963 Plan ^{a/}	Jan-Aug 1963 Actual	1964 Plan
Total	<u>345</u>	<u>355</u>	<u>494</u>	39	22	N.A.
USSR	<u>83</u>	<u>102</u>	<u>180</u>	76	90	<u>20</u>
European Satellites ^{b/}	<u>262</u>	<u>253</u>	<u>314</u>	24	1	N.A.
Bulgaria	18	17	25	47	17	N.A.
Czechoslovakia	37	47	61	30	25	N.A.
East Germany	68	72	100 ^{c/}	39	7	30 or more
Hungary	51	32	36	14	-13	N.A.
Poland	69	74	80	8	-8	N.A.
Rumania	19	11	12	10	-24	N.A.

a. Planned values for the USSR, Bulgaria, East Germany, and Poland are from the trade agreements for 1963. Percentage increases with these countries are based on these values and actual (rather than planned) turnover in 1962. Values for the other countries are based on the announced percentage increases and actual turnover in 1962.

b. Yugoslavia and Albania signed trade agreements for 1962 and 1963, but Yugoslav trade with Albania has been negligible.

c. The plan was raised to \$107 million in July 1963 following negotiations by the Mixed Commission for Trade between Yugoslavia and the German Democratic Republic.

C-O-N-F-I-D-E-N-T-I-A-L

Analysts:

25X1A

Coord:

Sources:

1. Data in the text:

FBIS. Daily Report (USSR and East Europe), 15 Jun 63,
p. gg 2. OFF USE.

Ibid., 12 Apr 63, p. nn 3. OFF USE.

Ibid., 28 Mar 63, p. hh 1. OFF USE.

Ibid., 30 Sep 63, p. nn 2. OFF USE.

State, Belgrade. Airgram A-184, 31 Aug 63. U.

25X1C

Ibid., Airgram A-1293, 12 Jun 63. C.

State, Sofia. Airgram A-105, 26 Sep 63, p. 3. C.

2. Data in the table:

Yugoslavia, Federal Institute for Statistics. Statisticki
godisnjak FNRJ, 1962 (Statistical Yearbook of the Federal
People's Republic of Yugoslavia, 1962), Belgrade, 1962,
p. 188. U.

Yugoslavia, Federal Institute for Statistics. Statistical Pocket-
book of Yugoslavia, 1963, Belgrade, 1963, p. 69. U.

FBIS. Daily Report (USSR and East Europe), 5 Oct 62, p. nn 4.
OFF USE.

Ibid., 2 Apr 63, p. kk 1. OFF USE.

Ibid., 20 Feb 63, p. nn 4. OFF USE.

Ibid., 27 Feb 63, p. ee 16. OFF USE.

Ibid., 29 Jan 63, p. nn 1. OFF USE.

Ibid., 20 Nov 62, p. nn 3. OFF USE.

Ibid., 21 Dec 62, p. jj 5. OFF USE.

Ibid., 23 Jul 63, p. nn 7. OFF USE.

Ibid., 2 Oct 63, p. ee 7. OFF USE.

Yugoslavia, Federal Institute for Statistics. Indeks, Oct 62,
p. 32. U.

Ibid., Oct 63, p. 32. U.

State, Belgrade. Telegram no 725, 27 Sep 63. OFF USE.

Approved For Release 2000/06/01 : CIA-RDP79T01003A001800110003-7
CONFIDENTIAL

CONFIDENTIAL

Approved For Release 2000/06/01 : CIA-RDP79T01003A001800110003-7